

# GDP and the Economy

## Advance Estimates for the Fourth Quarter of 2006 and for 2006

**I**N the fourth quarter of 2006, U.S. economic growth accelerated and inflation decelerated, according to the "advance" estimates of the national income and product accounts.<sup>1</sup> For the year 2006, real gross domestic product (GDP) accelerated slightly and inflation decelerated (see "Real GDP for 2006").

In the fourth quarter, real GDP increased 3.5 percent, following a 2.0-percent increase in the third quarter (chart 1 and table 1).<sup>2</sup> The step-up primarily reflected a downturn in imports (which are subtracted in the calculation of GDP) and accelerations in consumer spending for nondurable goods, in exports, in Federal Government spending, and in state and local government spending.<sup>3</sup> In contrast, inventory investment and investment in equipment and software turned down; nonresidential structures decelerated.

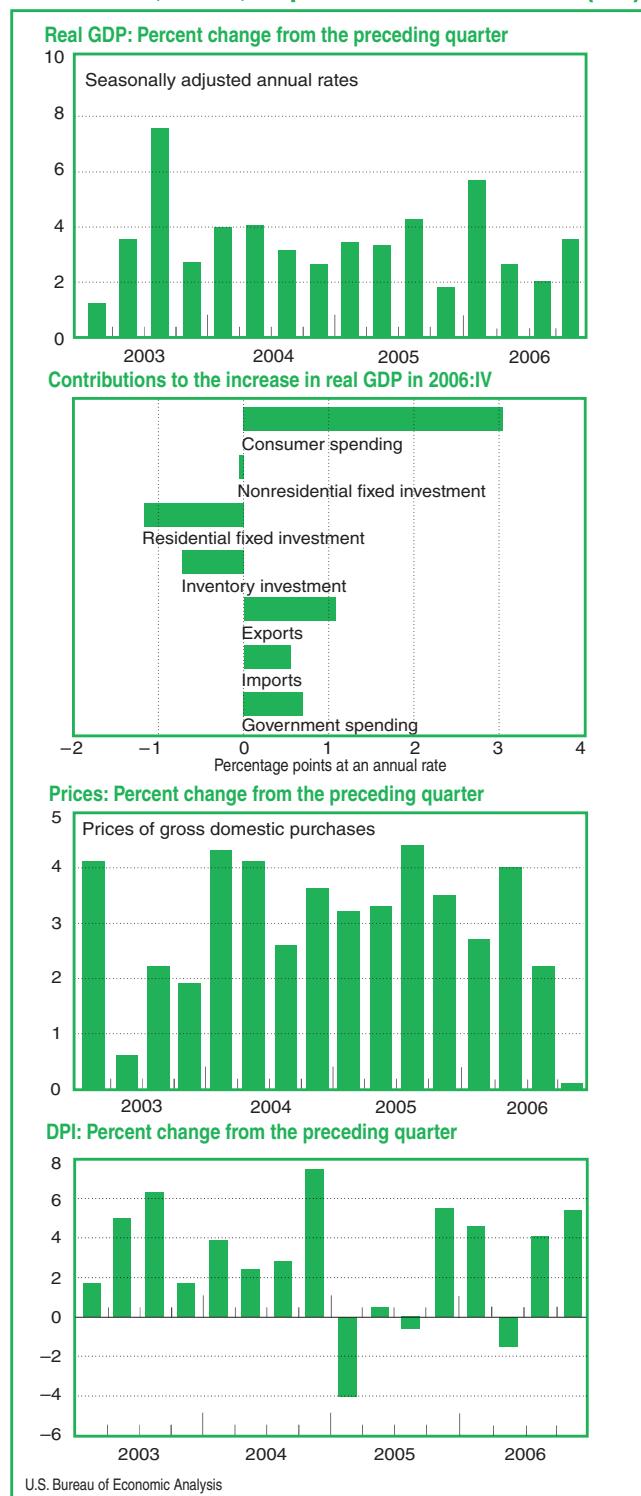
- Prices of goods and services purchased by U.S. residents decelerated, increasing 0.1 percent after increasing 2.2 percent. Energy prices turned down sharply and food prices slowed.
- Real disposable personal income (DPI) increased 5.4 percent, compared with a 4.1-percent increase in the third quarter. The acceleration reflected a downturn in the implicit price deflator used to adjust current-dollar DPI, which decelerated.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was -1.0 percent in the fourth quarter; in the third quarter, it was -1.2 percent.

1. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More information can be found at <[www.bea.gov/bea/about/infoqual.htm](http://www.bea.gov/bea/about/infoqual.htm)> and at <[www.bea.gov/bea/faq/national/gdp\\_accuracy.htm](http://www.bea.gov/bea/faq/national/gdp_accuracy.htm)>. Quarterly estimates are expressed at seasonally adjusted annual rates, which show the value of an activity if the quarterly rate were maintained for a year.

2. "Real" estimates are in chained (2000) dollars, and price indexes are chain-type measures.

3. In this article, "consumer spending" refers to the NIPA series "personal consumption expenditures," "inventory investment" refers to "change in private inventories," "Federal Government spending" refers to "Federal Government consumption expenditures and gross investment," and "state and local government spending" refers to "state and local government consumption expenditures and gross investment."

**Chart 1. GDP, Prices, Disposable Personal Income (DPI)**



## Real GDP Overview

**Table 1. Real Gross Domestic Product and Components**  
 [Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)			
		2006		2005	2006	2006		2005	2006
		IV	III			IV	III		
<b>Gross domestic product<sup>1</sup> .....</b>	<b>100.0</b>	<b>3.2</b>	<b>3.4</b>	<b>2.0</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>2.0</b>	<b>3.5</b>
<b>Personal consumption expenditures.....</b>	<b>69.9</b>	<b>3.5</b>	<b>3.2</b>	<b>2.8</b>	<b>4.4</b>	<b>2.44</b>	<b>2.25</b>	<b>1.96</b>	<b>3.05</b>
Durable goods.....	8.0	5.5	5.1	6.4	6.0	0.45	0.41	0.50	0.47
Nondurable goods.....	20.3	4.5	3.8	1.5	6.9	0.90	0.78	0.32	1.38
Services.....	41.6	2.6	2.5	2.8	2.9	1.09	1.05	1.14	1.20
<b>Gross private domestic investment.....</b>	<b>16.2</b>	<b>5.4</b>	<b>4.6</b>	<b>-0.8</b>	<b>-11.0</b>	<b>0.87</b>	<b>0.75</b>	<b>-0.13</b>	<b>-1.92</b>
Fixed investment.....	15.9	7.5	3.0	-1.2	-7.3	1.17	0.49	-0.19	-1.21
Nonresidential.....	10.6	6.8	7.4	10.0	-0.4	0.67	0.75	1.01	-0.05
Structures.....	3.2	1.1	9.1	15.7	2.8	0.03	0.26	0.46	0.09
Equipment and software.....	7.4	8.9	6.7	7.7	-1.8	0.64	0.49	0.55	-0.13
Residential.....	5.3	8.6	-4.2	-18.7	-19.2	0.50	-0.26	-1.20	-1.16
Change in private inventories.....	.....	.....	.....	.....	.....	-0.30	0.26	0.06	-0.71
<b>Net exports of goods and services .....</b>	<b>-5.2</b>	.....	.....	.....	.....	<b>-0.26</b>	<b>-0.02</b>	<b>-0.19</b>	<b>1.64</b>
Exports.....	11.3	6.8	8.9	6.8	10.0	0.68	0.93	0.73	1.08
Goods.....	8.0	7.5	10.5	9.4	8.8	0.52	0.76	0.71	0.68
Services.....	3.3	5.1	5.2	0.8	13.0	0.16	0.17	0.03	0.40
Imports.....	16.5	6.1	5.8	5.6	-3.2	-0.94	-0.95	-0.93	0.56
Goods.....	13.8	6.7	5.9	7.1	-5.0	-0.87	-0.81	-1.00	0.73
Services.....	2.7	2.8	5.3	-2.6	6.7	-0.07	-0.14	0.07	-0.17
<b>Government consumption expenditures and gross investment.....</b>	<b>19.1</b>	<b>0.9</b>	<b>2.1</b>	<b>1.7</b>	<b>3.7</b>	<b>0.17</b>	<b>0.40</b>	<b>0.32</b>	<b>0.70</b>
Federal.....	6.9	1.5	2.0	1.3	4.5	0.11	0.14	0.09	0.31
National defense.....	4.7	1.7	1.9	-1.2	11.9	0.08	0.09	-0.06	0.53
Nondefense.....	2.2	1.1	2.2	6.5	-9.3	0.03	0.05	0.15	-0.22
State and local.....	12.1	0.5	2.1	1.9	3.3	0.06	0.26	0.23	0.39

1. The estimates of GDP under the contribution columns are also percent changes.

NOTE. Percent changes are from NIPA table 1.1.1, contributions are from NIPA table 1.1.2, and shares are from NIPA table 1.1.10.

Consumer spending accelerated, contributing 3.05 percentage points to real GDP growth. Nondurable-goods spending accelerated.

Nonresidential fixed investment turned down. A downturn in equipment and software primarily reflected a downturn in transportation equipment and a deceleration in information processing equipment and software. Industrial equipment and "other" equipment also contributed to the downturn.

Residential investment decreased for the fifth consecutive quarter, reflecting a decrease in single-family structures. The 19.2-percent decrease subtracted 1.16 percentage points from real GDP growth.

Inventory investment turned down and subtracted 0.71 percentage point from real GDP growth.

Exports picked up, increasing 10.0 percent after a 6.8-percent increase and primarily reflecting an acceleration in exports of services. Services accelerated, primarily reflecting an upturn in travel.

Imports turned down sharply. The decrease was the largest since the first quarter of 2003. The downturn in goods imports reflected downturns in nonpetroleum industrial supplies and materials, in petroleum and products, and in nonautomotive capital goods. Imports of services turned up, primarily reflecting an upturn in travel by U.S. citizens abroad.

Federal Government spending accelerated, reflecting an upturn in defense spending that was moderated by a downturn in nondefense spending.

State and local government spending accelerated, primarily reflecting an upturn in spending for structures.

**Table 2. Real Gross Domestic Product (GDP) by Type of Product**  
 [Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)			
		2006		2005	2006	2006		2005	2006
		IV	III			IV	III		
<b>Gross domestic product<sup>1</sup> .....</b>	<b>100.0</b>	<b>3.2</b>	<b>3.4</b>	<b>2.0</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>2.0</b>	<b>3.5</b>
Final sales of domestic product.....	99.7	3.5	3.1	1.9	4.2	3.52	3.12	1.90	4.19
Change in private inventories.....	0.3	.....	.....	.....	.....	-0.30	0.26	0.06	-0.71
Goods.....	31.4	4.6	6.4	3.8	7.9	1.43	1.97	1.17	2.42
Services.....	58.0	2.3	2.3	2.8	3.5	1.31	1.35	1.63	2.01
Structures.....	10.6	4.6	0.6	-7.4	-8.6	0.49	0.06	-0.84	-0.96
<b>Addenda:</b>									
Motor vehicle output.....	2.9	5.9	-1.7	27.4	-31.7	0.20	-0.05	0.76	-1.17
GDP excluding motor vehicle output.....	97.1	3.1	3.6	1.2	4.8	3.03	3.44	1.20	4.64
Final sales of computers.....	0.7	24.5	17.1	11.7	46.7	0.16	0.11	0.07	0.25
GDP excluding final sales of computers.....	99.4	3.1	3.3	1.9	3.2	3.07	3.28	1.89	3.23

Real final sales of domestic product, real GDP less inventory investment, increased 4.2 percent after increasing 1.9 percent.

Motor vehicle output turned down and subtracted 1.17 percentage points from real growth after contributing 0.76 percentage point in the third quarter.

Final sales of computers accelerated, contributing 0.25 percentage point to real GDP growth after contributing 0.07 percentage point in the third quarter.

1. The estimates of GDP under the contribution columns are also percent changes.

NOTE. Percent changes are from NIPA table 1.2.1, contributions are from NIPA table 1.2.2, and shares are calculated from NIPA table 1.2.5.

## Prices

**Table 3. Prices for Gross Domestic Purchases**

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2005		2006		2005		2006	
	III	IV	III	IV	III	IV	III	IV
<b>Gross domestic purchases<sup>1</sup></b>	<b>3.5</b>	<b>3.1</b>	<b>2.2</b>	<b>0.1</b>	<b>3.5</b>	<b>3.1</b>	<b>2.2</b>	<b>0.1</b>
<b>Personal consumption expenditures</b>	<b>2.9</b>	<b>2.8</b>	<b>2.4</b>	<b>-0.8</b>	<b>1.92</b>	<b>1.83</b>	<b>1.55</b>	<b>-0.53</b>
Durable goods	-0.7	-1.4	-1.1	-2.8	-0.06	-0.11	-0.08	-0.22
Non durable goods	3.6	3.1	2.3	-8.0	0.70	0.59	0.46	-1.61
Services	3.2	3.4	3.0	3.4	1.28	1.35	1.18	1.30
<b>Gross private domestic investment</b>	<b>3.4</b>	<b>3.2</b>	<b>0.6</b>	<b>3.0</b>	<b>0.53</b>	<b>0.51</b>	<b>0.10</b>	<b>0.46</b>
Fixed investment	3.5	3.3	0.5	2.9	0.53	0.51	0.08	0.43
Nonresidential	2.6	2.8	0.9	2.2	0.25	0.28	0.09	0.22
Structures	11.3	11.4	5.3	5.1	0.27	0.29	0.15	0.15
Equipment and software	-0.4	-0.3	-0.9	1.0	-0.03	-0.02	-0.06	0.07
Residential	5.1	4.0	-0.1	4.1	0.28	0.23	-0.01	0.21
Change in private inventories	.....	.....	.....	.....	0.00	0.00	0.02	0.03
<b>Government consumption expenditures and gross investment</b>	<b>5.6</b>	<b>4.3</b>	<b>2.8</b>	<b>0.8</b>	<b>1.01</b>	<b>0.77</b>	<b>0.51</b>	<b>0.14</b>
Federal	4.8	3.4	2.0	-0.1	0.32	0.23	0.13	-0.01
National defense	5.1	3.4	2.3	-0.5	0.23	0.15	0.10	-0.02
Nondefense	4.1	3.5	1.4	0.7	0.09	0.08	0.03	0.02
State and local	6.2	4.8	3.4	1.2	0.69	0.54	0.38	0.14
<b>Addenda:</b>								
Gross domestic purchases:								
Food	2.2	2.3	3.0	2.3	0.20	0.22	0.28	0.22
Energy goods and services	19.1	11.6	0.6	-34.5	0.79	0.54	0.03	-2.08
Excluding food and energy	2.8	2.7	2.2	2.3	2.46	2.34	1.85	1.93
Personal consumption expenditures (PCE):								
Food	2.2	2.3	2.9	1.8	.....	.....	.....	.....
Energy goods and services	17.1	11.5	3.7	-36.7	.....	.....	.....	.....
Excluding food and energy	2.1	2.2	2.2	2.1	.....	.....	.....	.....
"Market-based" PCE	2.7	2.6	2.2	-1.6	.....	.....	.....	.....
Excluding food and energy	1.7	1.9	1.9	1.7	.....	.....	.....	.....
Gross domestic product	3.0	2.9	1.9	1.5	.....	.....	.....	.....

1. The estimates under the contribution columns are also percent changes.

NOTE. Most percent changes are from NIPA table 1.6.7; percent changes for PCE for food and energy goods and services and for PCE excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions are from NIPA table 1.6.8.

Inflation, as measured by the price index for gross domestic purchases, was 0.1 percent, compared with 2.2 percent in the third quarter. It was the slowest rate of inflation since the first quarter of 1998. Energy prices turned down sharply, decreasing 34.5 percent after increasing 0.6 percent. Food prices decelerated. Excluding food and energy prices, inflation was 2.3 percent.

Consumer prices, as measured by the PCE price index, turned down, decreasing 0.8 percent after increasing 2.4 percent. The decrease reflected a sharp downturn in energy prices and a deceleration in food prices.

Prices of nonresidential fixed investment accelerated; prices for transportation equipment turned up.

Prices of residential fixed investment increased 4.1 percent.

Prices paid by government slowed. Prices paid by the Federal Government turned down, and prices paid by state and local governments decelerated.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, increased 2.1 percent, following a 2.2-percent increase.

The "market-based" PCE price index decreased 1.6 percent after increasing 2.2 percent. Excluding food and energy, the index increased 1.7 percent after increasing 1.9 percent.

The GDP price index increased 1.5 percent after increasing 1.9 percent. The larger increase in the GDP price index than in the gross domestic purchases price index primarily reflected a decrease in import prices, which decreased 8.5 percent after increasing 5.4 percent. Export prices decreased 0.3 percent after increasing 4.5 percent.

### Note on Prices

The gross domestic purchases price index measures the prices paid by U.S. residents for all goods and services. It is derived from the prices of personal consumption expenditures (PCE), gross private domestic investment, and government consumption expenditures and gross investment.

It differs from the GDP price index because it excludes price changes of exported goods and services and includes price changes of imported goods and services (which are counted as part of consumption or investment).

The GDP price index measures the prices paid for the goods and services produced in the United States. It is derived from the prices of PCE, gross private domestic investment, net exports of goods and services, and govern-

ment consumption expenditures and gross investment. It differs from the gross domestic purchases price index because it excludes price changes of imported goods and services and includes price changes of exported goods and services.

Differences between the two price indexes reflect the changes in the prices of imports relative to the changes in the prices of exports. For example, quarter-to-quarter changes in the price index for gross domestic purchases are generally greater than changes in the GDP price index if increases in import prices exceed increases in export prices or if decreases in import prices are smaller than decreases in export prices.

## Personal Income

**Table 4. Personal Income and Its Disposition**

[Billions of dollars; quarterly estimates are seasonally adjusted at annual rates]

	Level		Change from preceding period			
	2006	2006	2005	2006	2006	
		IV			III	IV
<b>Personal income .....</b>	<b>10,897.4</b>	<b>11,096.3</b>	<b>507.8</b>	<b>658.2</b>	<b>157.2</b>	<b>131.8</b>
Compensation of employees, received .....	7,493.1	7,628.4	365.0	462.8	92.6	110.3
Wage and salary disbursements .....	6,037.7	6,145.3	272.7	372.9	73.6	90.8
Private industries .....	5,023.7	5,114.1	236.8	336.6	58.9	80.2
Goods-producing industries .....	1,181.4	1,193.0	50.5	80.1	9.3	10.7
Manufacturing .....	737.9	740.0	16.7	33.2	3.1	4.1
Services-producing industries .....	3,842.4	3,921.2	186.3	256.6	49.7	69.5
Trade, transportation, and utilities .....	997.8	1,013.9	38.0	60.6	12.2	10.9
Other services-producing industries .....	2,844.5	2,907.3	148.2	196.0	37.5	58.6
Government .....	1,013.9	1,031.2	35.9	36.2	14.6	10.7
Supplements to wages and salaries .....	1,455.4	1,483.1	92.3	89.9	19.1	19.5
Proprietors' income with IVA and CCAdj .....	1,014.8	1,024.0	59.6	44.1	2.9	9.2
Farm .....	22.8	28.3	-6.0	-7.4	4.2	6.6
Nonfarm .....	991.9	995.8	65.5	51.5	-2.6	-2.6
Rental income of persons with CCAdj .....	76.5	79.4	-54.2	3.7	6.9	1.1
Personal income receipts on assets .....	1,657.6	1,696.9	91.5	138.2	35.9	13.3
Personal interest income .....	1,018.1	1,028.2	54.2	73.1	16.6	-7.6
Personal dividend income .....	639.6	668.8	37.3	65.2	19.3	21.0
Personal current transfer receipts .....	1,602.1	1,629.4	100.1	75.5	28.9	10.8
Less: Contributions for government social insurance .....	946.6	961.8	54.2	66.0	10.1	12.9
Less: Personal current taxes .....	1,362.6	1,390.5	153.3	159.5	5.2	24.3
<i>Equals:</i> Disposable personal income .....	9,534.8	9,705.8	354.5	498.7	152.1	107.5
Less: Personal outlays .....	9,626.8	9,801.8	563.7	555.9	133.0	91.8
<i>Equals:</i> Personal saving .....	-92.0	-96.0	-209.1	-57.2	19.1	15.7
<b>Addenda: Special factors in personal income</b>						
In government wages and salaries:						
Federal pay raise .....		6.9			0.0	0.0
Federal civilian retroactive pay .....		0.0			0.0	0.0
Reservists' pay .....		5.7			0.0	0.0
In supplements to wages and salaries:						
Employer contributions for social insurance ...		4.6			0.4	-0.7
In nonfarm proprietors' income:						
Hurricane-related destruction of uninsured business property .....		4.6			0.0	0.0
In personal current transfer receipts:						
Social security retroactive payments .....		4.7			0.0	2.2
Cost-of-living adjustments under Federal transfer programs .....		25.2			0.0	0.8
FEMA disaster assistance benefits .....		0.7			-0.8	0.0
In contributions for government social insurance:						
Changes in premium for supplementary medical insurance .....		4.9			0.0	0.0
In personal current taxes:						
Federal tax law changes .....		-4.1			0.0	0.0
Refunds, settlements, and other .....		26.2			0.0	0.0

NOTE. Dollar levels are from NIPA tables 2.1 and 2.2B. CCAdj Capital consumption adjustment  
IVA Inventory valuation adjustment

Saving

Personal saving—disposable personal income less personal outlays—was -\$96.0 billion in the fourth quarter. Saving from current income may be near zero or negative when outlays are financed by borrowing (including borrowing financed through credit cards or home equity loans), by selling investments or other assets, or by using saving from previous periods. See “Alternative Measures of Personal Saving” in this issue.

Personal income, which is only measured in current dollars, increased \$131.8 billion after increasing \$157.2 billion. The deceleration primarily reflected a downturn in personal interest income and decelerations in personal current transfers and in rental income. Wages and salaries accelerated.

Compensation increased \$110.3 billion, compared with an increase of \$92.6 billion. The acceleration in wages and salaries was spread across private industries; wages and salaries in government decelerated.

Rental income decelerated, mainly reflecting a deceleration in space rent and an acceleration in total expenses.

Personal interest income turned down, reflecting a broad decline in interest rates over the quarter.

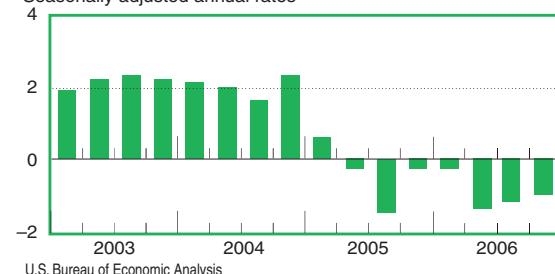
Personal current transfers decelerated because of a downturn in state and local government benefits (mainly Medicaid payments).

Personal current taxes accelerated mainly as a result of an upturn in state and local taxes.

Current-dollar disposable personal income decelerated, reflecting both the deceleration in personal income and the acceleration in personal current taxes.

## Chart 2. Personal Saving Rate

Seasonally adjusted annual rates



## Source Data for the Advance Estimates

**Table 5. Monthly Advance Estimates of Key NIPA Components Based on Partial Data, 2006:IV**

[Billions of dollars, seasonally adjusted at annual rates]

	2006					
	July	August	Sept.	Oct.	Nov.	Dec. <sup>1</sup>
<b>Private fixed investment:</b>						
Nonresidential structures:						
Value of new nonresidential construction put in place .....	303.0	312.1	310.5	312.0	316.5	314.2
Equipment and software:						
Manufacturers' shipments of complete aircraft .....	30.6	34.8	38.8	34.4	34.2	33.5
Residential structures:						
Value of new residential construction put in place:						
Single family .....	411.3	398.7	388.7	374.0	362.5	356.0
Multifamily .....	55.4	55.6	57.3	59.4	60.1	59.0
<b>Change in private inventories:</b>						
Change in inventories for nondurable manufacturing .....	7.5	9.3	-4.4	-8.6	4.6	5.0
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment .....	49.8	84.0	30.3	24.0	68.5	71.1
<b>Net exports:<sup>2</sup></b>						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis .....	1,025.5	1,056.3	1,063.4	1,062.0	1,069.1	1,077.5
Excluding gold .....	1,017.8	1,046.0	1,052.2	1,052.7	1,060.9	1,069.3
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis .....	1,906.9	1,954.7	1,906.6	1,842.3	1,845.5	1,872.4
Excluding gold .....	1,900.9	1,949.7	1,900.8	1,836.9	1,840.8	1,867.4
Net exports of goods .....	-881.4	-898.4	-843.2	-780.3	-776.4	-794.9
Excluding gold .....	-883.1	-903.8	-846.6	-784.1	-779.8	-798.1
<b>State and local government structures:</b>						
Value of new construction put in place .....	252.2	252.3	253.0	255.9	258.7	257.3

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments exports and imports, but it is not used directly in estimating exports and imports in the national income and product accounts.

### Summary of the Source Data for the Advance Estimates of GDP for the Fourth Quarter of 2006

The advance estimates of many components of GDP are based on 3 months of source data, but the estimates of some components are based on only 2 months of data. For the following items, the number of months for which data are available is shown in parentheses.

*Personal consumption expenditures:* Sales of retail stores (3), unit auto and truck sales (3), and consumers' shares of auto and truck sales (2);

*Nonresidential fixed investment:* Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

*Residential investment:* Construction put in place (2), single-family housing starts (3), sales of new homes (3), and sales of existing houses (3);

*Change in private inventories:* Trade and nondurable-goods manufacturing inventories (2), durable-goods manufacturing inventories (3), and unit auto and truck inventories (3);

*Net exports of goods and services:* Exports and imports of goods and services (2);

*Government consumption expenditures and gross investment:* Federal outlays (3), state and local government construction put in place (2), and state and local government employment (3);

*Compensation:* Employment, average hourly earnings, and average weekly hours (3);

*GDP prices:* Consumer price indexes (3), producer price indexes (3), and values and quantities of petroleum imports (2).

### Unavailable source data

When source data were unavailable, BEA made various assumptions for December, including the following:

- An increase in nondurable-goods manufacturing inventories,
- An increase in nonmotor vehicle merchant wholesale and retail inventories,
- Increases in exports and in imports of goods excluding gold.

Table 5 shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at <[www.bea.gov/national/index.htm#supp](http://www.bea.gov/national/index.htm#supp)>.

### Real GDP for 2006

Real GDP increased 3.4 percent in 2006, compared with an increase of 3.2 percent in 2005 (table 1).

The acceleration in real GDP primarily reflected an upturn in inventory investment and accelerations in exports, in nonresidential structures, and in state and local government spending (chart 1). Residential fixed investment turned down, decreasing in each quarter of 2006.

Businesses increased real inventory investment in 2006 by \$26.8 billion. The accumulation contributed 0.26 percentage point to real GDP growth; in contrast, declining inventory investment in 2005 subtracted 0.30 percentage point from real GDP growth.

Exports accelerated in 2006, increasing 8.9 percent, following an increase of 6.8 percent in 2005. Export growth exceeded import growth for the second consecutive year (chart 2). Exports added 0.93 percentage point to real GDP growth after contributing 0.68 percentage point in 2005. The acceleration was largely due to accelerations in nonautomotive capital goods and in industrial supplies and materials.

Nonresidential structures accelerated sharply, increasing 9.1 percent after a 1.1-percent increase in 2005. The acceleration contributed 0.26 percentage point to real GDP growth after contributing 0.03 percentage point in 2005. The acceleration was mainly due to upturns in "other" structures, in commercial and health care structures, and in power and communication structures.

State and local government spending accelerated,

increasing 2.1 percent after increasing 0.5 percent in 2005. The step-up contributed 0.26 percentage point to real GDP growth, compared with a contribution of 0.06 percentage point in 2005. The higher rate of spending reflected an acceleration in consumption expenditures and an upturn in investment in structures.

Residential fixed investment turned down in 2006, decreasing 4.2 percent after increasing 8.6 percent in 2005. The downturn, due primarily to a downturn in single-family structures, subtracted 0.26 percentage point from real GDP growth in 2006. In 2005, residential investment added 0.50 percentage point to real growth.

Inflation, as measured by the price index for gross domestic purchases, decelerated, increasing 3.1 percent in 2006 after increasing 3.5 percent in 2005. Excluding food and energy, inflation decelerated slightly, to 2.7 percent from 2.8 percent.

Real DPI increased 2.7 percent in 2006, following a 1.2-percent increase in 2005. The acceleration reflected an acceleration in current-dollar personal income that exceeded a step-up in personal current taxes.

### Chart 2. Growth in Exports and Imports of Goods and Services

**Chart 1. Contributions to the Increase in Real GDP in 2006**

